

**ALLEGAN COUNTY COMMUNITY
MENTAL HEALTH BOARD**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2005

ALLEGAN COUNTY COMMUNITY MENTAL HEALTH BOARD

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

January 19, 2006

To the Allegan County Community
Mental Health Board
Allegan, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Allegan County Community Mental Health Board (the "Board"), a special revenue fund and internal service fund of Allegan County, Michigan, as of and for the year ended September 30, 2005, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Allegan County Community Mental Health Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the Allegan County Community Mental Health Board funds and do not purport to, and do not present fairly the financial position of Allegan County, Michigan as of September 30, 2005 and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Allegan County Community Mental Health Board, as of September 30, 2005, and the respective changes in financial position and cash flows thereof and the budgetary comparison for the major special revenue fund for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2006, on our consideration of the Allegan County Community Mental Health Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Allegan County Community Mental Health Board's basic financial statements. The combining internal service fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

Rehmann Lohman

MANAGEMENT'S DISCUSSION AND ANALYSIS

ALLEGAN COUNTY COMMUNITY MENTAL HEALTH SERVICES

Management's Discussion and Analysis

Fiscal Year October 1, 2004 – September 30, 2005

The following Management Discussion and Analysis (MD&A) provides an introduction to the financial statements of the Allegan County Community Mental Health Services (ACCMHS) agency for the fiscal year ended September 30, 2005. This presentation is an effort to better inform the reader of the financial statements and presents an analysis and overview of the financial activities and condition of the organization during the past fiscal year.

The Allegan County Community Mental Health Services is an official agency of Allegan County which provides programs, services and supports for persons with severe and persistent mental illness and persons with developmental disabilities that are administered pursuant to the provisions of the Michigan Mental Health Code.

The County Board of Commissioners appoints members to the Mental Health Board, which governs the agency. The County also provides financial support to the agency on an annual basis and the agency is considered a department of Allegan County for reporting purposes in the audit for the County of Allegan.

The information contained in this MD&A should be considered in conjunction with the information contained in the financial audit conducted by Rehmann Robson for the period ended September 30, 2005. This MD&A contains information on the basic financial statements of the agency together with any required explanation, which would be essential to acquire a full understanding of the data contained therein.

Funding Background

In 1998, the Community Mental Health system went from a fee-for-service system to a capitated arrangement. In such an arrangement, each CMH receives a payment each month for each Medicaid recipient in the county. This payment is designed to cover the cost of providing mental health care to those Medicaid recipients in need of such care. A similar arrangement, using a different formula – primarily historical, provides funding to the CMH system to serve the non-Medicaid residents in the county. Under this arrangement, our revenue does not change when we serve more people or provide more care. It changes only when the number of Medicaid enrollees in the county increases or decreases.

Prior to the switch to a capitated system, for nearly two decades, the CMH system in Michigan received an ever-increasing share of its funding via the federal Medicaid system, on a fee-for-service basis. Therefore, the more services we provided, the more money we received. We received approximately one federal dollar for every state dollar that was spent serving a Medicaid recipient. State funding during this period was not increased. The state funds used to match the federal dollars were those state funds that were already in our budget.

The CMH system took on a number of mental health responsibilities formerly held by the state, including the community placement of former state hospital residents, AIS homes, utilization

management of and payment for local inpatient psychiatric hospital care. These were the primary sources of revenue growth for the CMH system over the past decades. This constitutes a transfer of responsibility more than a true increase in revenue. No new state dollars were added to the system during this time, so true revenues remained flat or decreased.

ACCMHS has been committed to remain clinically, organizationally and fiscally strong despite flat funding, unavoidable increases in costs, increased demand for services and the severity of the needs of those whom we serve. We have been committed to and successful in making budget cuts when necessary that avoid harming consumers.

Beginning October 1, 2002, the Michigan Department of Community Health contracted with a designated Prepaid Inpatient Health Plan (PIHP) for Medicaid services within a designated geographic region. Kalamazoo Community Mental Health Services was awarded the contract for the four county region of Kalamazoo, Allegan, Cass and St. Joseph counties. Kalamazoo then entered into a Medicaid sub-contract agreement with each of the CMHSP's. Separate General Fund contracts were issued by the state to each individual Community Mental Health Service Program (CMHSP).

This contracting arrangement is expected to remain the same through fiscal year 2006.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to ACCMHS's basic financial statements. The basic financial statements comprise three components: Government-wide financial statements, fund financial statements and notes to the financial statements.

The **government-wide financial statements** are designed to provide readers with a broad overview of the organization's finances in a manner similar to a private sector business, that focus on operations of the organization as a whole.

The Statement of Net Assets presents information of all of Allegan County Community Mental Health Services "assets" (what is owned), "liabilities" (what is owed) and the "net assets" (the resources that would remain if all obligations were settled). Changes in net assets serve as a useful indicator in determining whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how net assets changed during the fiscal year. Reporting of activities is on an accrual basis, meaning that revenues are recognized when earned, not when received and expenses are recognized when incurred, not when paid.

The **fund financial statements** report groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. ACCMHS uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. These funds are divided into two categories: governmental funds and proprietary funds.

Governmental fund statements have a narrower focus than that of the government-wide financial statements in that its focus is on the short-term movement of spendable resources available at the end of the fiscal year.

The following government-wide statement is included in this discussion with comparative totals for the prior fiscal year.

	FY 2005	FY 2004
Assets		
Cash & cash equivalents	\$2,780,616	\$2,416,502
Receivables	475,651	341,251
Prepaid items	139,781	114,792
Capital assets, net of accumulated depreciation	268,463	207,665
Total Assets	3,664,511	3,080,210
Liabilities		
Accounts payable	2,345,008	1,801,415
Deferred revenue	98,498	50,055
Total Liabilities	2,443,497	1,851,470
Net Assets		
Invested in capital assets	268,463	207,665
Unrestricted net assets	952,551	1,021,075
Total Net Assets	\$1,221,014	\$1,228,740

Several significant variances were revealed in this statement, which are explained as follows:

	FY 2005	FY 2004
Cash & cash equivalents	\$2,780,616	\$2,416,502
Receivables	475,651	341,251
Prepaid items	139,781	114,792
Deferred revenue	98,498	50,055
Accounts payable	2,345,008	1,801,415
Unrestricted net assets	952,551	1,021,075

Increases in cash & cash equivalents is reflective of increases in the accrued vacation reserve and the self-insurance fund, but primarily reflects the Medicaid capitation payments that were received but not spent. The significant increase in accounts payable reflects the unspent Medicaid funds that will be returned to the PIHP. The payment of this will also have a significant impact on the cash & cash equivalents. Prepaid items include the amount of depreciable equipment purchased, but as yet un-depreciated and should be considered to be a restriction of fund balance. Deferred revenue reflects the amount of unspent state general funds that are carried forward for use in the next fiscal year and fall within the 5% carry forward provision of the contract.

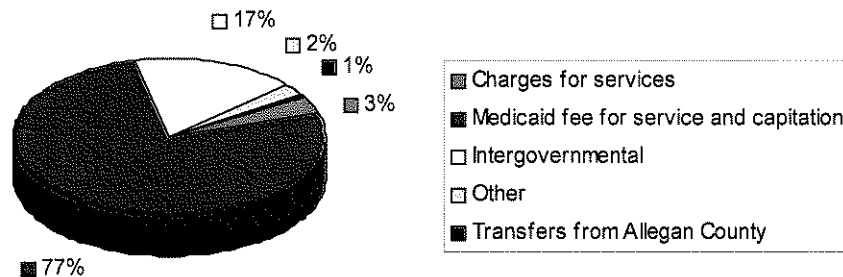
These activities contributed to a decrease to the fund balance of the special revenue fund of \$121,786, \$53,262 of which is held in the self-insurance fund for future claims, leaving an effective net decrease of \$68,524. Actual financial activities for the year resulted in an excess of expenditures over revenues of \$7,726, therefore, total net assets of the Agency decreased by \$7,726.

The following government-wide statement is included in this discussion with comparative totals for the prior fiscal year.

	FY 2005	FY 2004
Program Revenues		
Charges for services	\$576,562	\$398,687
Medicaid fee for service and capitation	13,100,201	13,018,831
Intergovernmental	2,910,261	3,094,785
Other revenue	422,008	444,299
Total Revenue	<u>17,009,032</u>	<u>16,956,602</u>
Expenses		
Health and welfare	17,166,758	17,317,751
Capital Outlay	-	-
Total Expenses	<u>17,166,758</u>	<u>17,317,751</u>
Excess of Expense over Revenues before transfers	(157,726)	(361,149)
Transfers from other funds of Allegan County	<u>150,000</u>	<u>359,600</u>
Change in net assets	(7,726)	(1,549)
Net Assets at the Beginning of the Year	<u>1,228,740</u>	<u>1,230,289</u>
Net assets at the End of the Year	<u>\$1,221,014</u>	<u>\$1,228,740</u>

There were no significant variances revealed in this statement.

Revenues and other financing sources - Governmental Activities



Budgetary Highlights

The budget for any particular fiscal year is developed several months prior to notification of funding levels. The ACCMHS Board reviews and approves a budget in September for an October 1 start date. Development of the annual budget begins in June, four months prior to its implementation. The funding levels from the State and other sources are often not received or known until well after the start of a fiscal year. Especially during times of economic stress, these amounts are subject to change during the fiscal year.

The differences between the original and final budget illustrate this uncertainty of funding, especially given the time frame for implementing the budget for the start of the fiscal year. Changes during the 2005 fiscal year included the award of several grants. This information, as received, resulted in changes to the level of spending approved by management.

Ultimately, ACCMHS experienced an overall reduced level of revenues; however, significant savings were achieved through a reduced need of residential and inpatient placements during the 2005 fiscal year. This resulted in overall expenditures significantly under budget. This in turn resulted in a return to the PIHP of \$642,264 in unspent Medicaid and a carry forward of \$93,907 in unspent state general funds.

Capital Asset and Debt Administration

Capital Assets

At September 30, 2005, the ACCMHS had \$268,463 invested in equipment and vehicles. This amount represents a net increase of approximately \$60,798 over last year. Current year depreciation expense was \$74,935.

	<u>2005</u>	<u>2004</u>
Furniture and equipment	\$ 269,726	\$ 211,867
Vehicles	523,083	506,717
Accumulated depreciation	<u>(524,346)</u>	<u>(510,919)</u>
Total capital assets	<u>\$ 268,463</u>	<u>\$ 207,665</u>

Factors Impacting the Future

The greatest impact to the agency's future funding is the contract with the Michigan Department of Community Health. The funding levels from the State are in turn impacted by the State of Michigan's economy, potential Executive Order reductions issued by the Governor, and the approval of waiver provisions by the Centers of Medicare and Medicaid Services. Allegan County government is also experiencing budget reductions, including but not limited to state reductions in revenue sharing. This has resulted in reductions in the local match allocation to ACCMHS.

Medicaid funding, while received by ACCMHS through a sub-capitation agreement with the PIHP, is dependent on the number of persons that meet Medicaid eligibility criteria. In recent years, Allegan County, as well as the other counties in the affiliation, have experienced an increase in the numbers of Medicaid enrollees, which has slightly increased Medicaid revenues. However, CMHSP's are also required to meet any increased demand for the mental health needs of those Medicaid enrollees who meet the eligibility criteria for services and supports. Conversely, should there be a reduction in the number of Medicaid eligible persons, our funding level would reduce. Any reduction in the Medicaid population, however, may not impact the number of persons receiving our services. Medicaid funding may not be utilized for services to non-Medicaid consumers.

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

Statement of Net Assets and Special Revenue Fund Balance Sheet

September 30, 2005

	<u>Special Revenue Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$2,602,515	\$ 178,101	\$ 2,780,616
Receivables:			
Outpatient fees	36,829	-	36,829
Medicaid	30,626	-	30,626
Medicare	73,292	-	73,292
Insurances	30,205	-	30,205
Industrial contracts	5,471	-	5,471
Other, net of allowance of \$4,494	299,228	-	299,228
Prepaid items	118,279	21,502	139,781
Capital assets, net of accumulated depreciation	-	268,463	268,463
<u>TOTAL ASSETS</u>	<u>\$3,196,445</u>	<u>468,066</u>	<u>3,664,511</u>
<u>LIABILITIES AND FUND BALANCE</u>			
Liabilities			
Accounts payable	\$2,228,243	116,765	2,345,008
Deferred revenue	98,489	-	98,489
 Total liabilities	 <u>2,326,732</u>	 <u>116,765</u>	 <u>2,443,497</u>
Fund balance/net assets			
Reserved for prepaid items	118,279	(118,279)	-
Unreserved - undesignated	751,434	(751,434)	-
 Total fund balance	 <u>869,713</u>	 <u>(869,713)</u>	 <u>-</u>
 <u>TOTAL LIABILITIES AND FUND BALANCE</u>	 <u>\$3,196,445</u>		
 Net assets			
Invested in capital assets		268,463	268,463
Unrestricted		<u>952,551</u>	<u>952,551</u>
 <u>TOTAL NET ASSETS</u>		 <u>\$ 1,221,014</u>	 <u>\$ 1,221,014</u>

The accompanying notes are an integral part of these financial statements.

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

**Reconciliation of Special Revenue Fund Balance Sheet
to Statement of Net Assets**

September 30, 2005

Fund balance - Special Revenue Fund	\$ 869,713
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - equipment and vehicles	792,809
Deduct - accumulated depreciation	(524,346)

Assets and liabilities of the internal service funds are included in governmental activities

Add - Cash	178,101
Add - Prepaid expenses	21,502
Deduct - Accrued self-insurance claims	<u>(116,765)</u>

Net assets of governmental activities	<u><u>\$ 1,221,014</u></u>
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The accompanying notes are an integral part of these financial statements.

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

**Statement of Activities and Special Revenue Fund Revenues,
Expenditures and Changes in Fund Balance**

For the Year Ended September 30, 2005

	Special Revenue Fund	Adjustments	Statement of Activities
Revenue			
Medicaid fee for service and capitation	\$ 13,100,201	\$ -	\$ 13,100,201
Intergovernmental:			
Federal	621,809	-	621,809
State	2,288,452	-	2,288,452
Charges for services:			
Other insurance	255,655	-	255,655
Other service fees	320,907	-	320,907
Interest	45,171	2,665	47,836
Other revenues and reimbursements:			
Revenue contracts	76,971	-	76,971
Other	297,201	-	297,201
Total revenue	<u>17,006,367</u>	<u>2,665</u>	<u>17,009,032</u>
Expenditures/expenses			
Health and Welfare:			
Personnel costs	7,924,437	(50,597)	7,873,840
Operating expenditures	9,119,538	74,935	9,292,918
Capital outlay	234,178	(135,733)	-
Total expenditures/expenses	<u>17,278,153</u>	<u>(111,395)</u>	<u>17,166,758</u>
Excess (deficiency) of revenue over (under) expenditures/expenses	(271,786)	114,060	(157,726)
Other financing sources			
Transfer in - County appropriation	150,000	-	150,000
Net change in fund balance/change in net assets	(121,786)	114,060	(7,726)
Fund balance/net assets			
Beginning of year	991,499	237,241	1,228,740
End of year	<u><u>\$ 869,713</u></u>	<u><u>\$ 351,301</u></u>	<u><u>\$ 1,221,014</u></u>

The accompanying notes are an integral part of these financial statements.

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

**Reconciliation of the Special Revenue Fund Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities**

For the Year Ended September 30, 2005

Net change in fund balance - Special Revenue Fund	\$ (121,786)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Special revenue funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	135,733
Deduct - depreciation expense	(74,935)

Interest income of internal service funds is recorded as an increase to interest income of governmental activities.	2,665
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Changes in net assets of internal service funds before consideration of interest income is recorded as an adjustment to governmental expenditures.	<u>50,597</u>
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Change in net assets of governmental activities	<u><u>\$ (7,726)</u></u>
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The accompanying notes are an integral part of these financial statements.

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

**Statement of Revenue, Expenditures and Changes in Fund Balance -
Special Revenue Fund Budget and Actual**

For the Year Ended September 30, 2005

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget Positive (Negative)</u>
Revenue				
Medicaid fee for service and capitation	\$ 13,364,385	\$ 13,364,385	\$ 13,100,201	\$ (264,184)
Intergovernmental:				
Federal	671,375	1,029,725	621,809	(407,916)
State	2,680,375	2,682,355	2,288,452	(393,903)
Charges for services:				
Other insurance	190,405	190,405	255,655	65,250
Other service fees	336,195	334,215	320,907	(13,308)
Interest	112,085	112,085	45,171	(66,914)
Other revenues and reimbursements:				
Revenue contracts	79,840	79,840	76,971	(2,869)
Other	75,750	75,750	297,201	221,451
 Total revenue	 <u>17,510,410</u>	 <u>17,868,760</u>	 <u>17,006,367</u>	 <u>(862,393)</u>
Expenditures				
Health and welfare:				
Personnel costs	7,753,770	8,276,890	7,924,437	352,453
Operating expenditures	9,964,640	9,672,745	9,119,538	553,207
Capital outlay	42,500	169,625	234,178	(64,553)
 Total expenditures	 <u>17,760,910</u>	 <u>18,119,260</u>	 <u>17,278,153</u>	 <u>841,107</u>
 Revenue over (under) expenditures	 (250,500)	 (250,500)	 (271,786)	 (21,286)
Other financing sources				
Transfer in - county appropriation	250,500	250,500	150,000	(100,500)
 Net changes in fund balance	 -	 -	 (121,786)	 (121,786)
 Fund balance, beginning of year	 <u>991,499</u>	 <u>991,499</u>	 <u>991,499</u>	 <u>-</u>
 Fund balance, end of year	 <u><u>\$ 991,499</u></u>	 <u><u>\$ 991,499</u></u>	 <u><u>\$ 869,713</u></u>	 <u><u>\$ (121,786)</u></u>

The accompanying notes are an integral part of these financial statements.

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

**Statement of Net Assets
Internal Service Fund**

September 30, 2005

	Self Insurance Fund
	<hr/>
Current assets	
Cash and cash equivalents	\$ 178,101
Prepaid items	<hr/> 21,502
Total assets	199,603
Current liabilities	
Accrued self-insurance claims	<hr/> 116,765
Net assets - unrestricted	<hr/> <hr/> \$ 82,838

The accompanying notes are an integral part of these financial statements.

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

**Statement of Revenue, Expenses and Changes in Fund Net Assets
Internal Service Fund**

For the Year Ended September 30, 2005

	<u>Self- Insurance Fund</u>
Operating revenue	
Premiums	\$ 1,219,137
Interest	<u>2,665</u>
Total operating revenue	<u>1,221,802</u>
Operating expenses	
Claims	932,621
Management fees	104,408
Insurance premiums	<u>131,511</u>
Total operating expenses	<u>1,168,540</u>
Change in net assets	53,262
Net assets, beginning of year	<u>29,576</u>
Net assets, end of year	<u><u>\$ 82,838</u></u>

The accompanying notes are an integral part of these financial statements.

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

**Statement of Cash Flows
Internal Service Fund**

For the Year Ended September 30, 2005

	<u>Self- Insurance Fund</u>
Cash flows from operating activities	
Receipts from other funds	\$ 1,219,137
Claims paid	(896,876)
Payments to insurance companies	(235,919)
Interest income	<u>2,665</u>
Net cash provided by operating activities	89,007
Cash and cash equivalents, beginning of year	<u>89,094</u>
Cash and cash equivalents, end of year	<u><u>\$ 178,101</u></u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 53,262
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities which provided (used) cash:	
Prepaid items	(1,061)
Accrued self-insurance claims	<u>36,806</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 89,007</u></u>

The accompanying notes are an integral part of these financial statement.

ALLEGAN COUNTY COMMUNITY MENTAL HEALTH BOARD

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Allegan County Community Mental Health Board (the "Board") was created by resolution of the Allegan County Board of Commissioners pursuant to Act 54 of the Public Acts of 1963, as amended. The Board, which is composed of certain elected County officials and other individuals, is responsible for serving the mental health needs of Allegan County residents in accordance with its full management contract with the Michigan Department of Community Health (MDCH) and the Michigan Mental Health Code.

Reporting Entity – These financial statements represent the financial condition and the results of operations of a special revenue fund and one internal service fund of Allegan County, Michigan (the "County") and are an integral part of that reporting entity. The Board is not a component unit of Allegan County or any other reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*.

Government-wide and Fund Financial Statements - The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Allegan County Community Mental Health Board. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* normally are supported by intergovernmental revenues.

A separate column is presented for the special revenue fund (major fund) on the statement of net assets and governmental funds balance sheet and statement of activities and governmental fund revenues, expenditures and changes in fund balance. This separate column takes the place of the government funds financial statement presentation. This alternative method of presenting major fund information is utilized because only one major fund (special revenue fund) is utilized by the Board. The statement of net assets, statement of revenues, expenses and changes in fund net assets and statement of cash flows present the total of all internal service funds.

Governmental Activities

Special Revenue Fund – The Special Revenue Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Internal Service Funds – The Self-Insurance Fund accounts for activities which provide health insurance and medical reimbursements to all qualified employees. The Risk Reserve Fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - The government-wide financial statements (statement of net assets and statement of activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

ALLEGAN COUNTY COMMUNITY MENTAL HEALTH BOARD

NOTES TO FINANCIAL STATEMENTS

Intergovernmental revenue, charges for services and other revenue associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to the special revenue fund for insurance services. Operating expenses for internal service funds include the cost of claims, administration, and reinsurance. Any revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Capital Assets - Capital assets are not capitalized in the special revenue funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in the special revenue fund.

Capital assets, which include office equipment and vehicles, are reported in the government wide financial statements. Capital assets are defined as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded for reporting purposes at historical cost or estimated historical cost if constructed or purchased.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Equipment	3-7
Vehicles	5

Cash and Cash Equivalents - The Board's cash consists of cash on hand, demand deposits and deposits with the Allegan County treasurer.

Receivables - Receivables consist primarily of amounts due from the State of Michigan for Medicaid billings and grant reimbursements under the terms of its full management contract and from other agencies, governments and organizations for services rendered. Amounts receivable under the full management contract are subject to a cost settlement process and, as such, provision has been made by the Board for adjustments as estimated by management.

Prepaid Items - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Budgetary Accounting - The Board's special revenue fund is under formal budgetary control and follows both the County and MDCH's annual budget process in establishing the budgetary data presented in the financial statements. The annual fiscal budget is adopted on a basis consistent with generally accepted accounting principles and the requirements of the MDCH.

Transfer In-County Appropriation

This transfer represents a subsidy provided by the County general operations.

ALLEGAN COUNTY COMMUNITY MENTAL HEALTH BOARD

NOTES TO FINANCIAL STATEMENTS

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Board's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a program basis. The approved budgets of the Board for these budgetary funds were adopted at the activity level within a function. Any budgetary overages have been displayed in the statement of revenues, expenditures and changes in fund balance – budget and actual.

3. CASH AND CASH EQUIVALENTS

Deposits

The captions on the financial statements relating to cash and cash equivalents are as follows:

	<u>Governmental Activities</u>
Cash and cash equivalents	<u>\$2,780,616</u>

These deposits are in one (1) financial institution located in Michigan. All accounts are in the name of the Board. They are recorded in the Board's records at fair value.

Deposit Risk

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Board's deposits may not be returned. State law does not require and the Board does not have a policy for deposit custodial credit risk. As of year-end, \$2,837,930 of the Board's bank balance of \$2,937,930 was exposed to credit risk because it was uninsured and uncollateralized.

Deposits of the Board held by Allegan County may be partially covered by federal depository insurance. The amount of federal depository insurance is determined for the County as a whole, but cannot be separately identified for the Board. All accounts are in the name of the Board and a specific fund or a specific fund or common account. They are recorded in the Board's records at cost. Interest is recorded when deposits mature or is credited to the applicable account.

Statutory Authority

The Board is authorized by the governing body to invest surplus funds, in the following:

- Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers acceptances of United States banks.

ALLEGAN COUNTY COMMUNITY MENTAL HEALTH BOARD

NOTES TO FINANCIAL STATEMENTS

- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through 12/31/97.

4. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Equipment	\$211,867	\$ 74,659	\$ (16,800)	\$ 269,726
Vehicles	506,717	61,074	(44,708)	523,083
Total	<u>718,584</u>	<u>135,733</u>	<u>(61,508)</u>	<u>792,809</u>
Accumulated depreciation:				
Equipment	(191,971)	(6,376)	16,800	181,547
Vehicles	(318,948)	(68,559)	44,708	342,799
Total Accumulated depreciation	<u>(510,919)</u>	<u>(74,935)</u>	<u>61,508</u>	<u>524,346</u>
Net	<u>\$207,665</u>	<u>\$60,798</u>	<u>\$ -</u>	<u>\$268,463</u>

5. PENSION PLANS

Allegan County Community Mental Health Board maintains both a defined benefit plan and a defined contribution plan for its eligible employees. New employees have the option of participating in the defined contribution plan. Individuals employed before the defined contribution plan was in effect were offered the opportunity to convert to the defined contribution plan.

Defined Benefit Plan

Plan Description – The Board's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Board participates along with Allegan County in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

ALLEGAN COUNTY COMMUNITY MENTAL HEALTH BOARD

NOTES TO FINANCIAL STATEMENTS

Funding Policy - The Board is required to contribute at an actuarially determined rate; the current rate is 0.0% of annual covered payroll. Employees are also required to contribute 4.0%. The contribution requirements of the Board are established, and may be amended, by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Board, depending on the MERS contribution program adopted by the Board.

Annual Pension Cost - During the year ended September 30, 2005, the Board made contributions to the plan totaling \$0, which is based on actuarial projections of funding requirements. Employee contributions for the same period were \$21,207.

Additional historical information is not available for the Boards' participation in MERS because a separate actuarial valuation has not been completed. The actuarial data is included in Allegan County's valuation.

Defined Contribution Plan

The Board's defined contribution plan is offered through MERS and administered by ICMA. Benefit provisions and contribution requirements are established and may be amended by Allegan County Community Mental Health Board. The Board makes contributions of 4% of each participant's salary and will match 100% up to an additional 2% of salary. Employees may make voluntary contributions up to 17% of their salary. The covered payroll for the plan was approximately \$5,298,000. Total contributions for the year ended September 30, 2005, were \$443,344 (\$137,152 employee and \$306,192 employer; 2.6 percent and 5.8 percent of covered payroll, respectively).

6. SELF-INSURANCE PROGRAMS

The Board provides health, dental, long-term disability, short-term disability, and life insurances to all its eligible employees through the Self-Insurance Internal Service Fund. The self-insured programs are administered by a third-party administrator who provides claims review and process services as well as illustrated premium rates, which are anticipated, over time, to approximate the actual cost of benefits.

Premiums for self-insured programs are paid into the internal service funds based on actual or illustrated rates. These premiums are available to pay claims, claim reserves, excess coverage and administrative costs. Excess coverage insurance purchased by the Board covers individual claims in excess of \$30,000 annually, subject to an aggregate lifetime limitation of \$1,000,000 for medical claims only. The liability at the end of the year is based on claims already incurred and reported as well as an estimate for claims incurred but not reported at September 30, 2005.

The change in the claims liability for the years ended September 30, 2004 and 2005 is as follows:

	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Year Liability
2004	\$205,900	\$965,684	\$1,091,625	\$ 79,959
2005	79,959	932,621	895,815	116,765

ALLEGAN COUNTY COMMUNITY MENTAL HEALTH BOARD

NOTES TO FINANCIAL STATEMENTS

7. CONCENTRATIONS AND ECONOMIC DEPENDENCY

The Board maintains its cash accounts in federally insured institutions and does not consider there to be significant risk associated with deposits in excess of federally insured amounts.

Approximately 90% of total revenue and 22% of total accounts receivable are amounts, either directly or indirectly, paid by or due from the Michigan Department of Community Health.

8. FEDERAL AWARDS

The federal funds expended by the Board are audited as part of the single audit of the County of Allegan.

9. LITIGATION

In the normal course of its activities, the Board has become a party in various legal actions. Management of the Board is of the opinion that the outcome of such actions will not have a material effect on the financial position of the Board and, therefore, has not reflected loss reserves in the financial statements.

10. BUILDING LEASE

The Board leases several buildings from the County of Allegan. These leases are currently on a month-to-month basis.

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SUPPLEMENTARY INFORMATION

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

**Statement of Revenue, Expenditures and Changes in Fund Balance -
Adjustment from Cash Settlement Report**

For the Year Ended September 30, 2005

	Cash Basis	Adjustments to PA 423	Accrual Basis
Revenue			
Medicaid fee for service and capitation	\$ 13,100,201		\$ 13,100,201
Intergovernmental:			
Federal	621,809		621,809
State	2,288,452		2,288,452
Charges for services:			
Other insurance	254,605	1,050	255,655
Other service fees	323,870	(2,963)	320,907
Interest	45,171		45,171
Other revenues and reimbursements:			
Revenue contracts	76,971		76,971
Other	297,201		297,201
 Total revenue	 17,008,280	 (1,913)	 17,006,367
Expenditures			
Health and welfare			
Personnel costs	7,924,437		7,924,437
Operating expenditures	9,119,538		9,119,538
Capital outlay	234,178		234,178
 Total expenditures	 17,278,153	 -	 17,278,153
 Revenue over (under) expenditures	 (269,873)	 (1,913)	 (271,786)
Other financing sources			
Transfer in - county appropriation	150,000	-	150,000
 Net changes in fund balance	 (119,873)	 (1,913)	 (121,786)
Fund balance, beginning of year	991,499	-	991,499
 Fund balance, end of year	 \$ 871,626	 \$ (1,913)	 \$ 869,713

INTERNAL CONTROL AND COMPLIANCE



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

January 19, 2006

To the Allegan County Community
Mental Health Board
Allegan, Michigan

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Allegan County Community Mental Health Board (the "Board") Allegan County, Michigan, as of and for the year ended September 30, 2005, which collectively comprise the Board's basic financial statements as listed in the table of contents and have issued our report thereon dated January 19, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board, management, others within the organization, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.